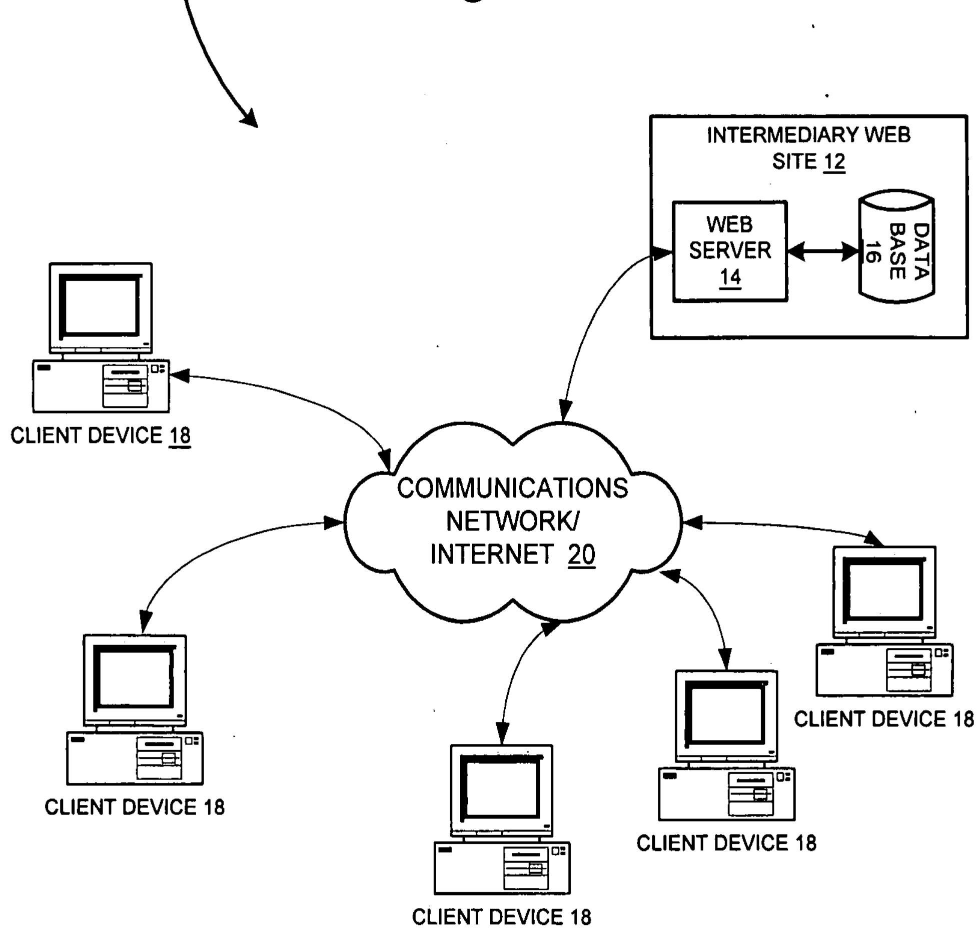
Fig. 1


10
INTERMEDIARY WEB SITE 12
WEB SERVER 14
DATA BASE 16
COMMUNICATIONS NETWORK/ INTERNET 20
CLIENT DEVICE 18
CLIENT DEVICE 18
CLIENT DEVICE 18
CLIENT DEVICE 18
CLIENT DEVICE 18

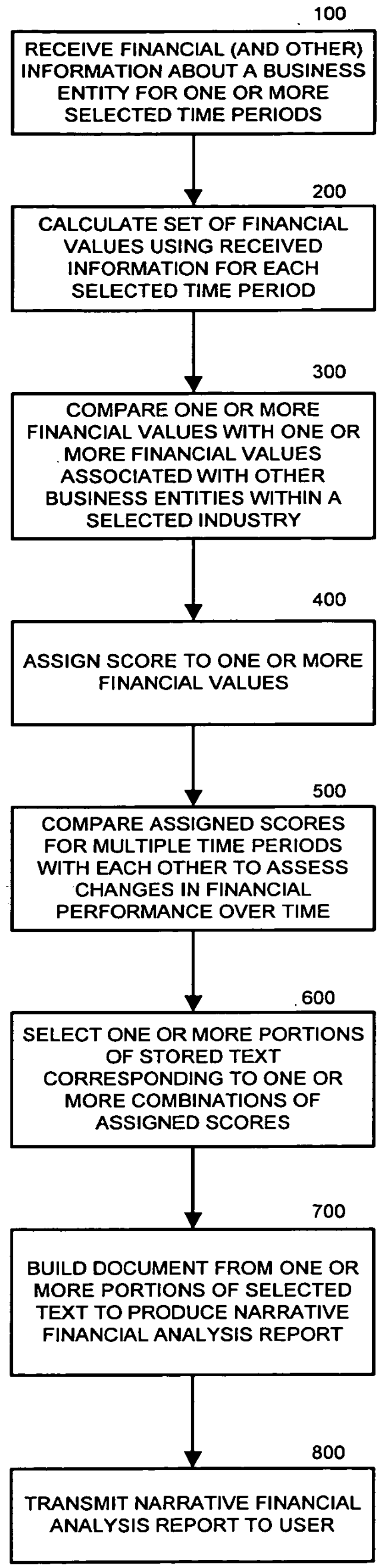

100
RECEIVE FINANCIAL (AND OTHER) INFORMATION ABOUT A BUSINESS ENTITY FOR ONE OR MORE SELECTED TIME PERIODS
200
CALCULATE SET OF FINANCIAL VALUES USING RECEIVED INFORMATION FOR EACH SELECTED TIME PERIOD
300
COMPARE ONE OR MORE FINANCIAL VALUES WITH ONE OR MORE FINANCIAL VALUES ASSOCIATED WITH OTHER BUSINESS ENTITIES WITHIN A SELECTED INDUSTRY
400
ASSIGN SCORE TO ONE OR MORE FINANCIAL VALUES
500
COMPARE ASSIGNED SCORES FOR MULTIPLE TIME PERIODS WITH EACH OTHER TO ASSESS CHANGES IN FINANCIAL PERFORMANCE OVER TIME
600
SELECT ONE OR MORE PORTIONS OF STORED TEXT CORRESPONDING TO ONE OR MORE COMBINATIONS OF ASSIGNED SCORES
700
BUILD DOCUMENT FROM ONE OR MORE PORTIONS OF SELECTED TEXT TO PRODUCE NARRATIVE FINANCIAL ANALYSIS REPORT
800
TRANSMIT NARRATIVE FINANCIAL ANALYSIS REPORT TO USER

Fig. 2

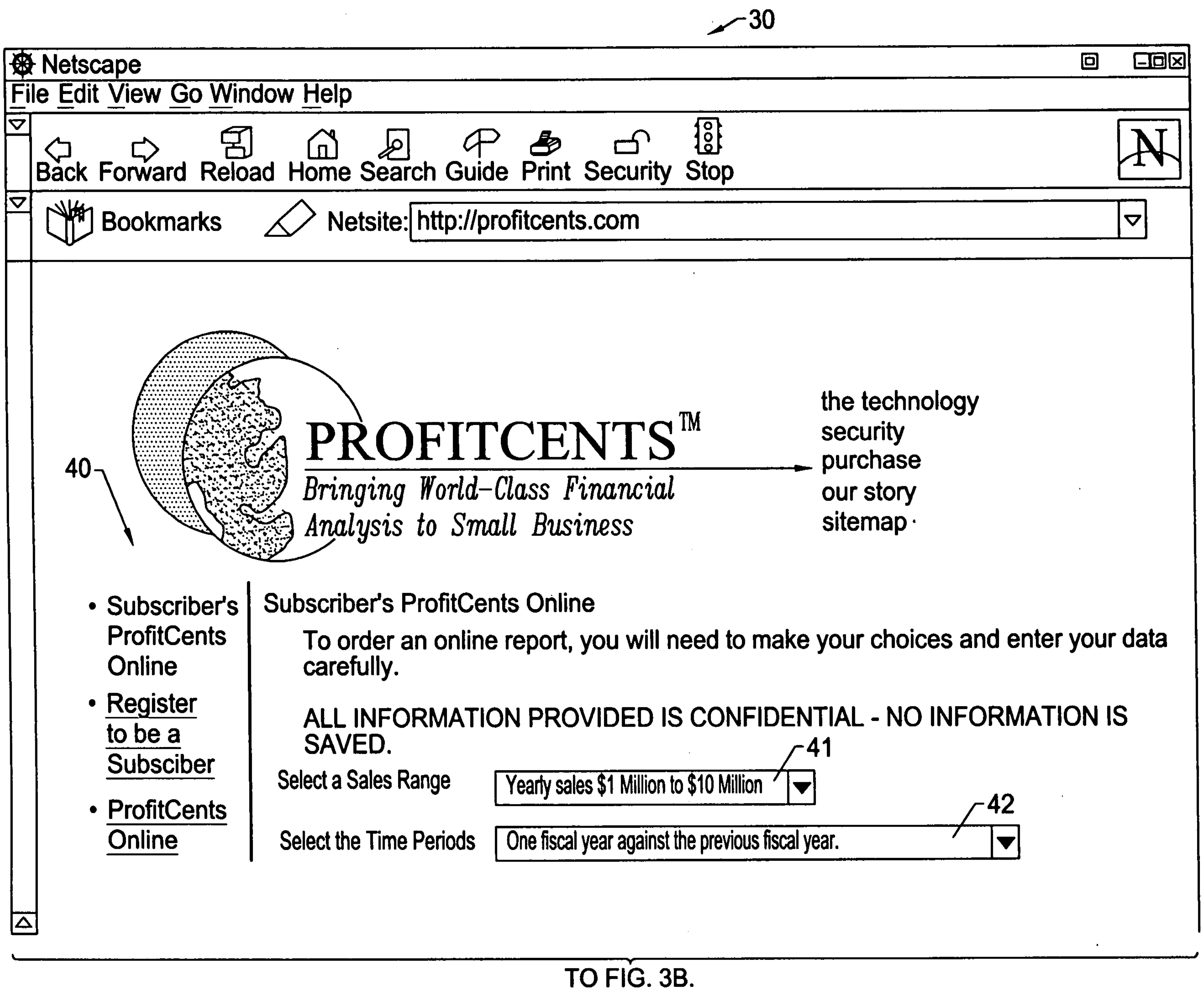
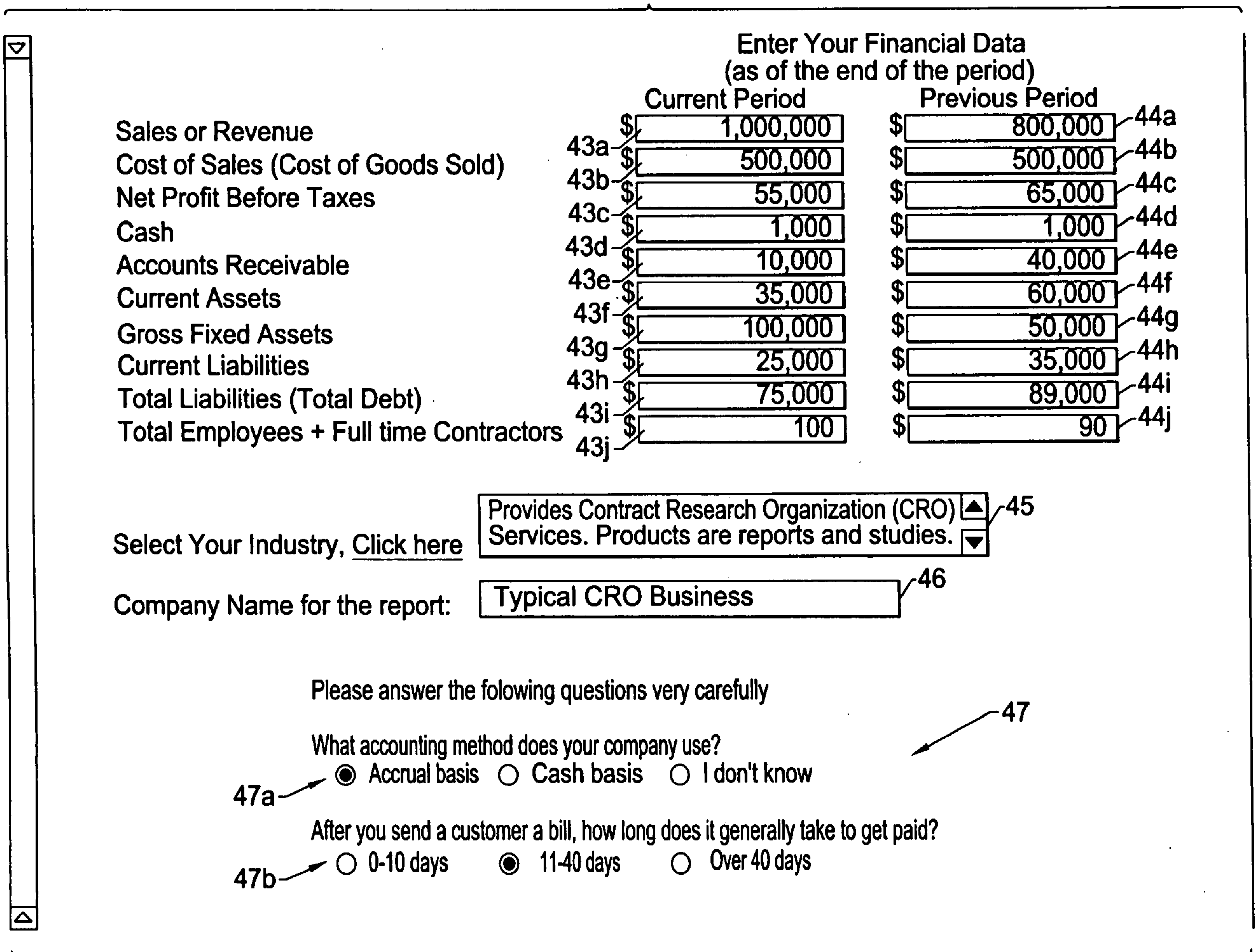

30
Netscape
File Edit View Go Window Help
Back Forward Reload Home Search Guide Print Security Stop
Bookmarks
Netsite: http://profitcents.com
PROFITCENTS™
Bringing World-Class Financial Analysis to Small Business
the technology
security
purchase
our story
sitemap
40
• Subscriber's ProfitCents Online
• Register to be a Subsciber
• ProfitCents Online
Subscriber's ProfitCents Online
To order an online report, you will need to make your choices and enter your data carefully.
ALL INFORMATION PROVIDED IS CONFIDENTIAL - NO INFORMATION IS SAVED.
41
Select a Sales Range
Yearly sales $1 Million to $10 Million
42
Select the Time Periods
One fiscal year against the previous fiscal year.
TO FIG. 3B.

FIG.3A.

FROM FIG. 3A.



TO FIG. 3C.

FIG.3B.

FROM FIG. 3B.

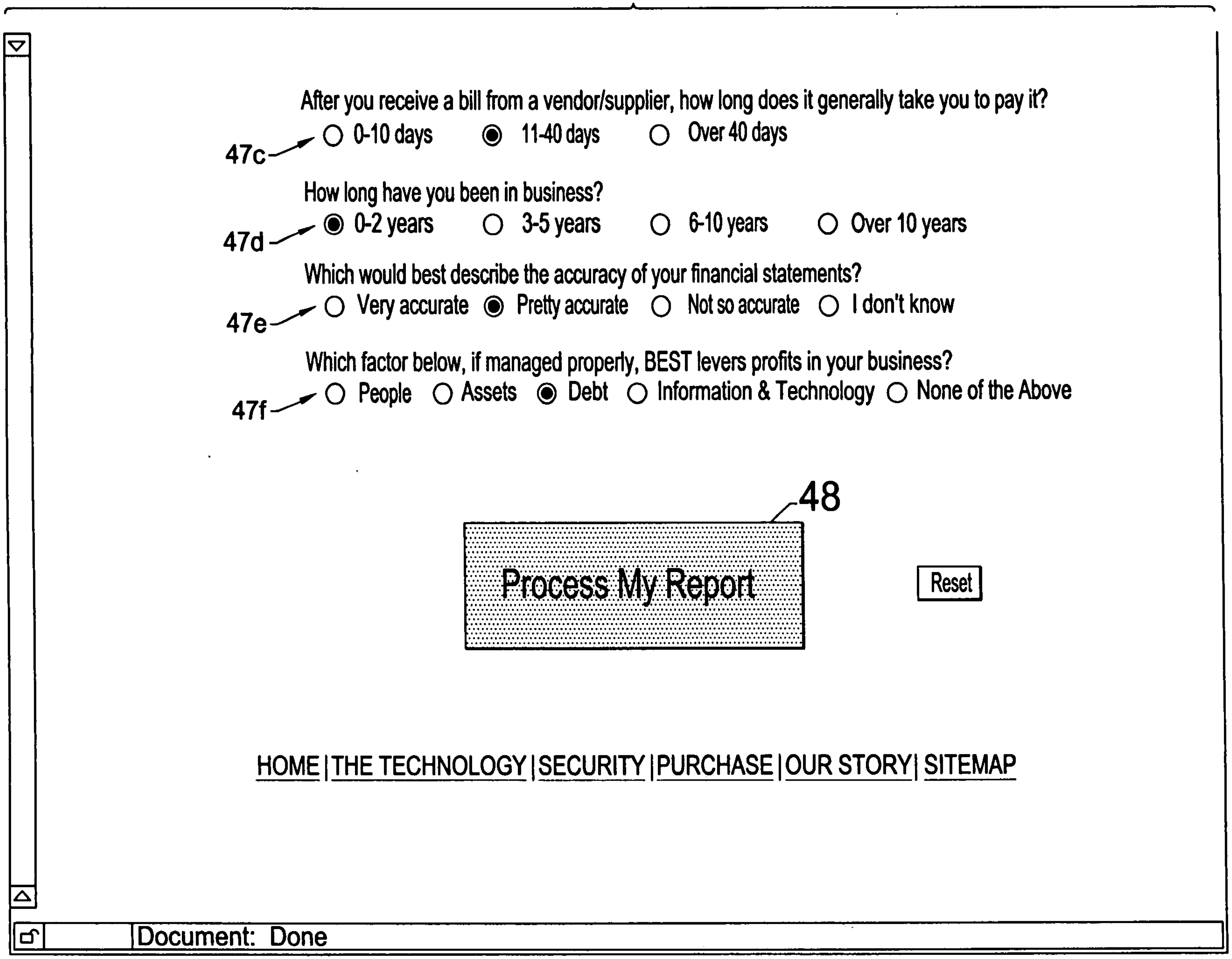


FIG.3C.

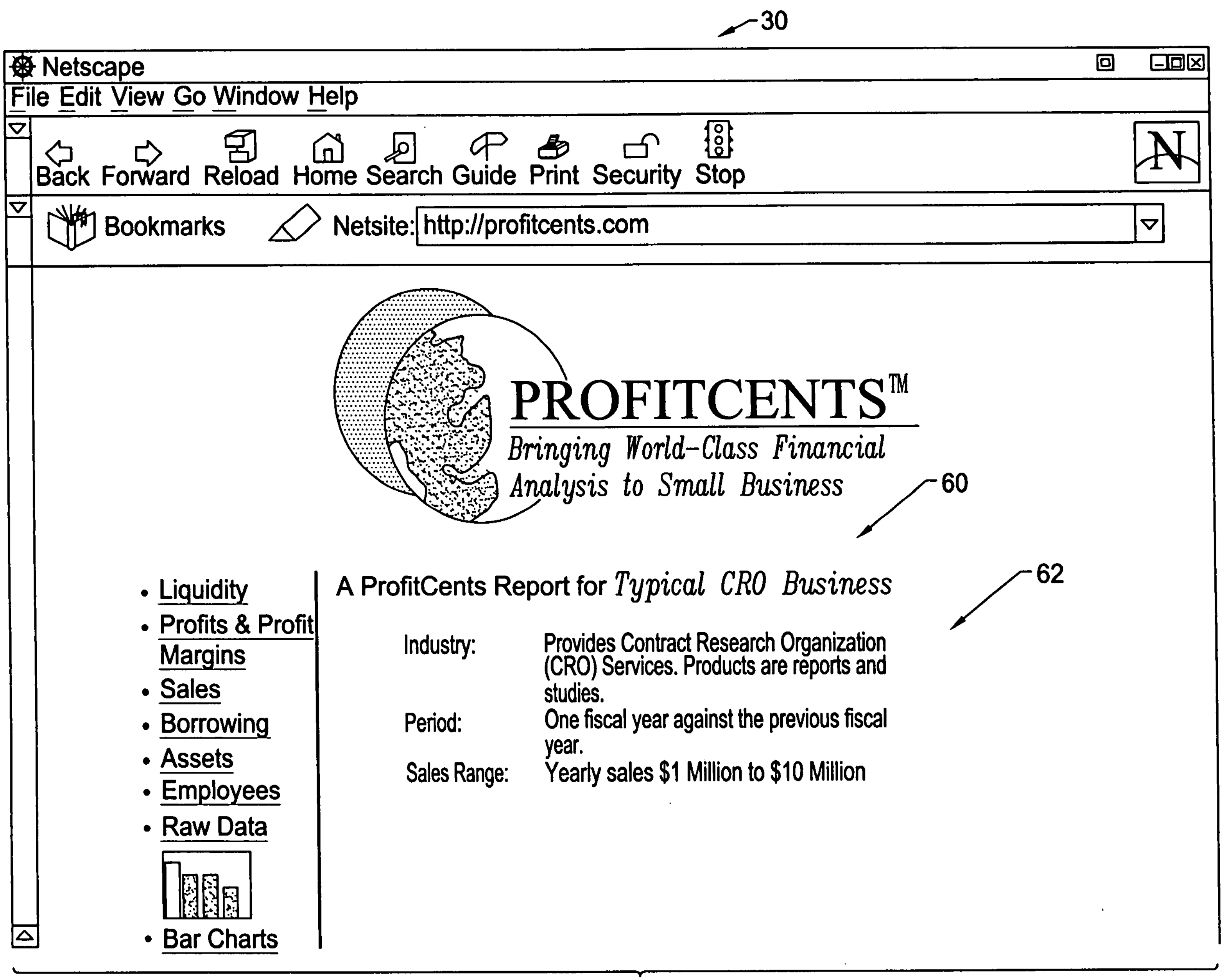


FIG.4A.

TO FIG. 4B.

FROM FIG. 4A.

64

Liquidity

Generally, what is our overall liquidity position?

65

★

POOR

64a

The company needs to consider the results carefully here. Even though sales have increased from last period, the company's liquidity position has actually deteriorated in multiple areas. It will be noted in the next section that net income margin has decreased quite a bit as well, which is not good. Margins affect both profitability and liquidity.

64b

The firm now has less cash and total current assets relative to short-term financial obligations than it did last period. The numbers look pretty "weak". In short, the company's liquidity position is poor and needs to be improved. Otherwise, there may be several negative concurrent events: the company may have a difficult time paying the bills, and management may also have to spend inordinate amounts of time on just managing cash flow. Finally, the company may not have the cash available to deal with an unforeseen negative occurrence. While these models are not predictive, the company's general position can be quite accurately assessed.

64c

Management might explore some aggressive ways to improve cash flow: 1) Prepare frequent cash flow forecasts. If the company is having chronic cash flow problems, it may be advisable to prepare forecasts as often as once or even twice per month. 2) If prudent to do so, sell off unproductive assets that are not generating cash flow or income for the company. 3) Get tougher generally in the collection area. 4) See if prices can be moved higher on some selected goods or services. 5) Re-think some credit issues generally. It is rarely appropriate to give all customers the same credit terms. 6)

TO FIG. 4C.

FIG.4B.

FROM FIG. 4B.

Use COD for marginal customers. 7) "Term out" some short-term debt by refinancing. Basically, management can move some short-term debt to long-term debt.

Profits & Profit Margins

66

Are we profitable?

This company performed very well in the gross profit area. Not only did managers increase sales and gross profits, but they also improved gross margins. This shows us that the company is effectively managing sales increases. Increasing the gross margin is a key component to long-term success: it allows the company to use gross profits as a form of leverage.

67

★

POOR

However, on the net profit side, results are less postive. Despite earning higher gross profits, both net profitability and net profit margins fell from last period. How did the company do this? Basically, managers spent significantly more money on operating costs this period. This dynamic could eventually lead to trouble if continued over the long run.

This is all the more true because net profit margins are now low even when compared to other similar companies. Specifically, this company is not generating enough net profitability for its sales level.

TO FIG. 4D.

FIG.4C.

FROM FIG. 4C.

From these results, it would seem that managers should go through operating costs (G&A) costs and isolate the costs that are out of line. It could be that the company is making strategic investments in some costs. Otherwise, managers need to find out which costs might need to be adjusted. An important question to consider is the point in sales at which the company is most profitable. In other words, what is the optimal relevant range-sales and production level? Many businesses require a certain level of sales to earn profits. What is this company's? It is possible that the company has reached another operating range--the point at which managers need to begin growing sales significantly.

Finally, management must make sure that consulting revenue is diversified. It is easy to become dependent upon single customer relationships or single lines of services. It's interesting to note that larger and successful companies are now offering more and different types of services than they did five years ago.

68

Sales

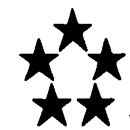
Are sales growing and satisfactory?

TO FIG. 4E.

FIG.4D.

FROM FIG. 4D.

We're seeing nice results in this area. Sales have increased substantially. It looks like the company has also bought a substantial amount of assets, and it looks like additional people have been hired. The company is also generating more revenue per employee this period, a long run key performance indicator (KPI) in this particular industry. However, we won't draw too many conclusions in this section because the real goal is increasing profitability over time, as discussed in the profitability area. Sales increases, in and of themselves, do not tell us that much.



GOOD

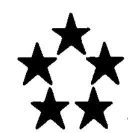
69

Borrowing

70

Are we borrowing profitably?

Both net profitability and total debt fell from last period. The drop in profitability had already been discussed in the "Profitability" section of the report. The reason that these results are considered rather good is that total debt fell faster than profitability. If resources such as debt can be reduced over time, profitability will generally increase in the long run. This is because resources cost money so the less of them being carried by the company, the more profitability that can be built into the company. It is generally most beneficial to maintain the leanest resource base possible to generate the level of profitability desired.



GOOD

71

TO FIG. 4F.

FIG.4E.

FROM FIG. 4E.

Assets 72

Are we using our fixed assets effectively?

Because fixed assets do not appear on the profit/loss statement, managers often forget to consider them in terms of how they affect profitability. Nevertheless, the profit/loss statement is a symptom not a cause. Buying fixed assets can actually help a company earn higher profits if it is done in the correct manner.

★ *RISKY* 73

However, in this case it looks like the assets bought may not be performing optimally, because buying them has not increased profitability. Indeed, profitability is down from last period. There is no logic in purchasing additional assets if they will not help generate additional profitability. This is especially true given that the profit margins and overall liquidity are down, too. Althought it is possible that the assets recently purchased need some time to start operating at their maximum levels, managers may want to be particularly careful about making purchases at this time.

Employees 74

Are we hiring effectively?

TO FIG. 4G.

FIG.4F.

FROM FIG. 4F.

The results in this area make us a little uneasy. This is because the company has hired more people, but net profitability has fallen from last period. Ideally, we want to see hiring result in higher profitability. During this period, this did not happen. In fact, the reverse occurred.

★ *RISKY* 75

Unless it is the stated strategy to invest in more employees for the long run, managers may want to think hard about future hiring decisions until they can move net profitability higher. This is especially true because the company added a significant amount of fixed assets and needs to give those assets time to start producing more profitability as well.

However, let's end this section and the report by revealing some important notes. While it is true that the methods used here are sound and based upon existing financial analysis, financial analysis is limited because it looks <u>backward</u> not <u>forward</u>. This is a real limitation, which should be noted by the reader. For example, good hiring decisions should be based upon an analysis of future conditions, not what has happened already.

"I criticize by creation---not by finding fault." - Cicero

TO FIG. 4H.

FIG.4G.

FROM FIG. 4G.

Raw Data

76

	Current Period	Previous Period
Sales	$1,000,000	$800,000
Cost of Sales	$500,000	$500,000
Gross Profit	$500,000	$300,000
Gross Profit Margin	50.0%	37.5%
Net Profit Before Taxes	$55,000	$65,000
Net Profit Margin	5.5%	8.1%
Cash	$1,000	$1,000
Accounts Receivable	$10,000	$40,000
Current Assets	$35,000	$60,000
Gross Fixed Assets	$100,000	$50,000
Current Liabilities	$25,000	$35,000
Total Liabilities (Total Debt)	$75,000	$89,000
Employees	100	90

TO FIG. 4I.

FIG.4H.

FROM FIG. 4H.

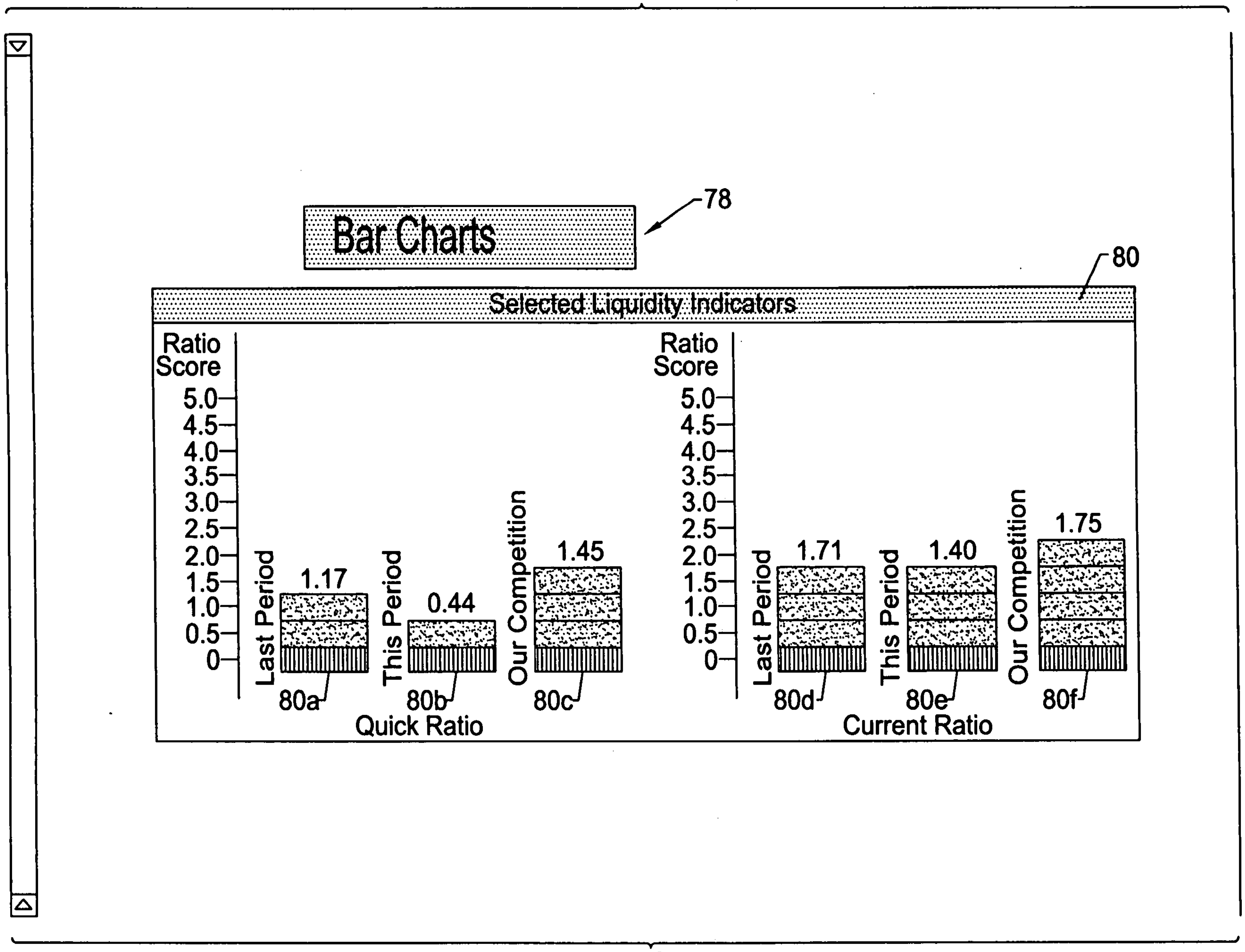


FIG.4I.

TO FIG. 4J.

FROM FIG. 4I.

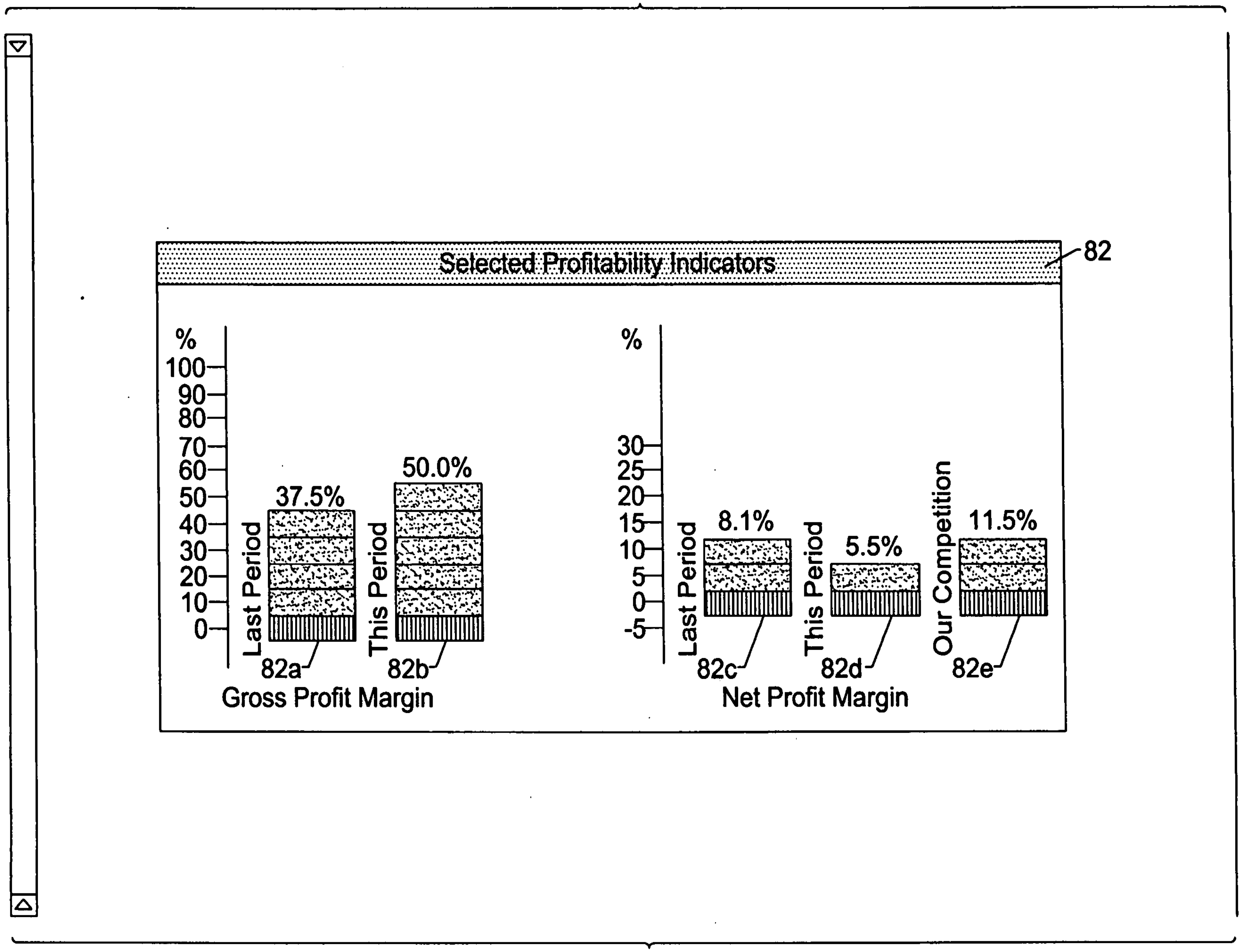


FIG.4J.

TO FIG. 4K.

FROM FIG. 4J.

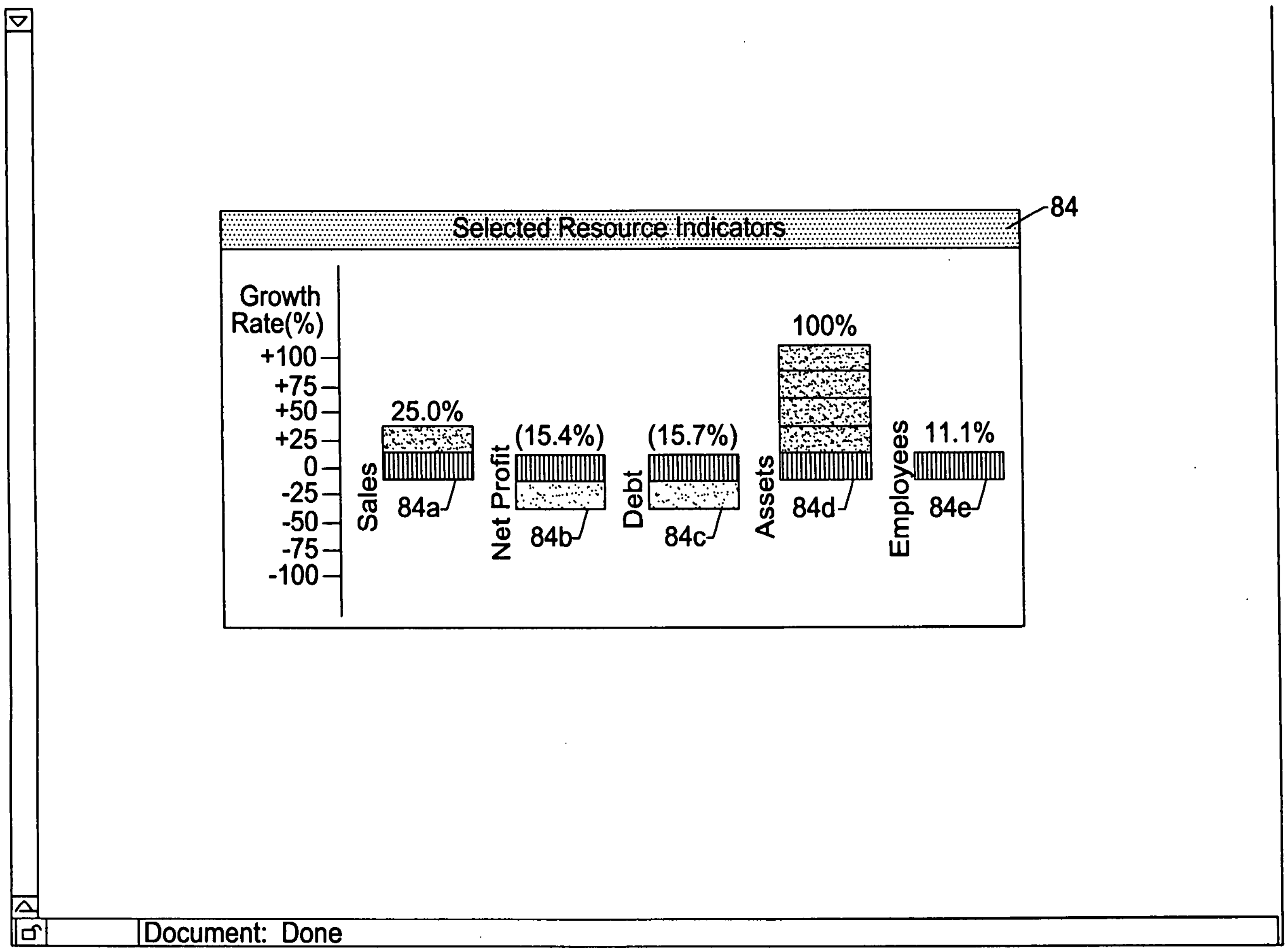


FIG.4K.